

History Recap

- Credit crunch – credit constrained/repriced
- Property transactions stall – values fall
- Western Economy enters recession
– tenants contract: rents fall, incentives rise

Impact on REITs

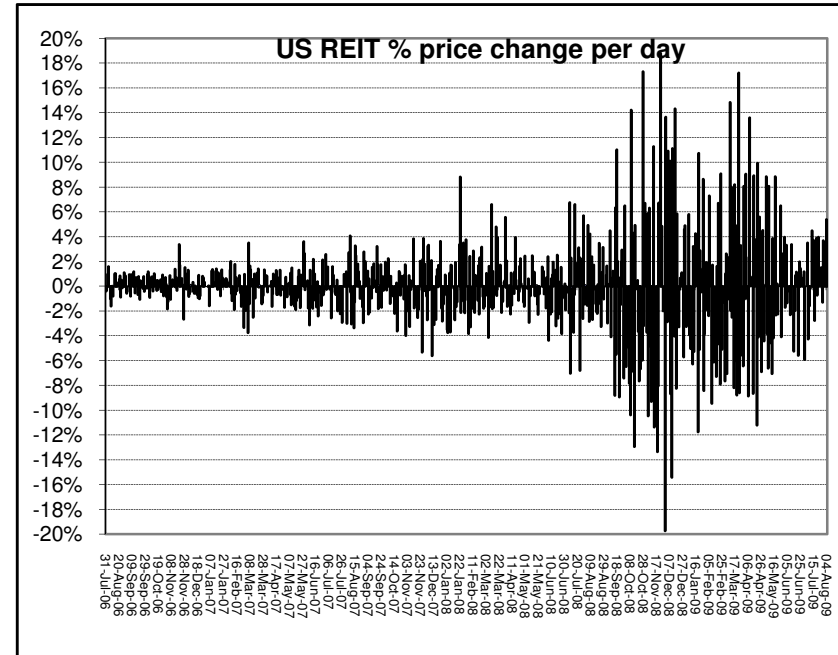
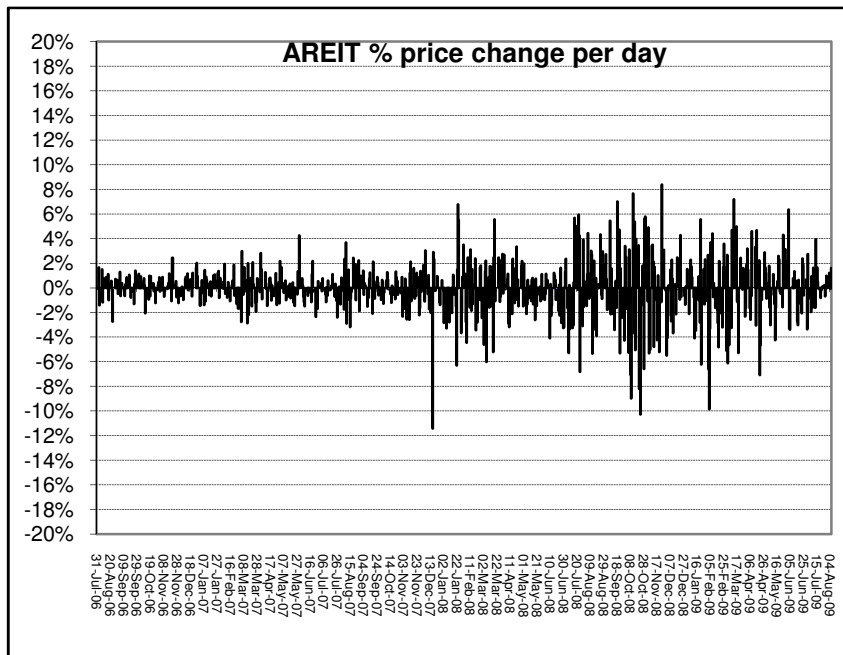
- ➔ LTV Covenants under pressure
- ➔ Balance sheets rebalanced
- ➔ Dividends cut/payout ratios reduced
- ➔ Development capital expenditure curtailed
- ➔ Dilution → Impact on ROE!
- Listed Market has largely addressed refi issue until 2012

Reflating Balance Sheets

Market	AUD\$ Raised since Sep 08	% of Equity Market Cap
US	\$16bn	10%
Australia	\$17bn	30%
UK	\$8bn	30%
Continental Europe	\$3bn	5%
Singapore	\$5bn	33%
Hong Kong	\$2.5bn	2%
Japan	\$0.8bn	1%
Total	\$52bn	

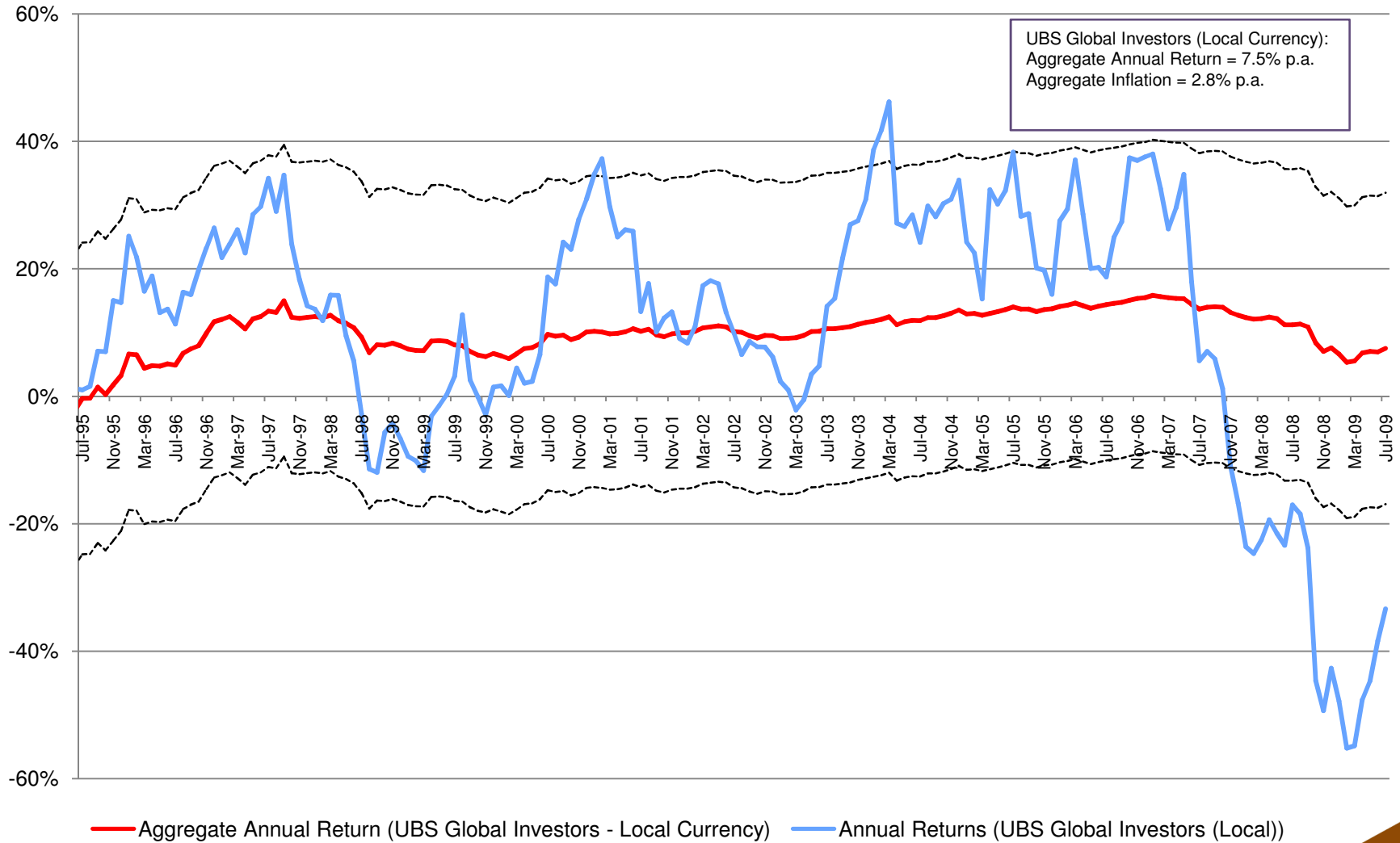
Source: Resolution Capital, Company Reports

2008 – 2009 Unparalleled REIT Volatility



Global REITs – an overdue correction

UBS Global Investors (Local Currency) Aggregate Annual Returns



Source: UBS & Bloomberg

REITs Criticisms

- Poor performance
- Too much “other” non-rental income
- Too much financial engineering
- Too much debt
- Too much index concentration
- Too volatile

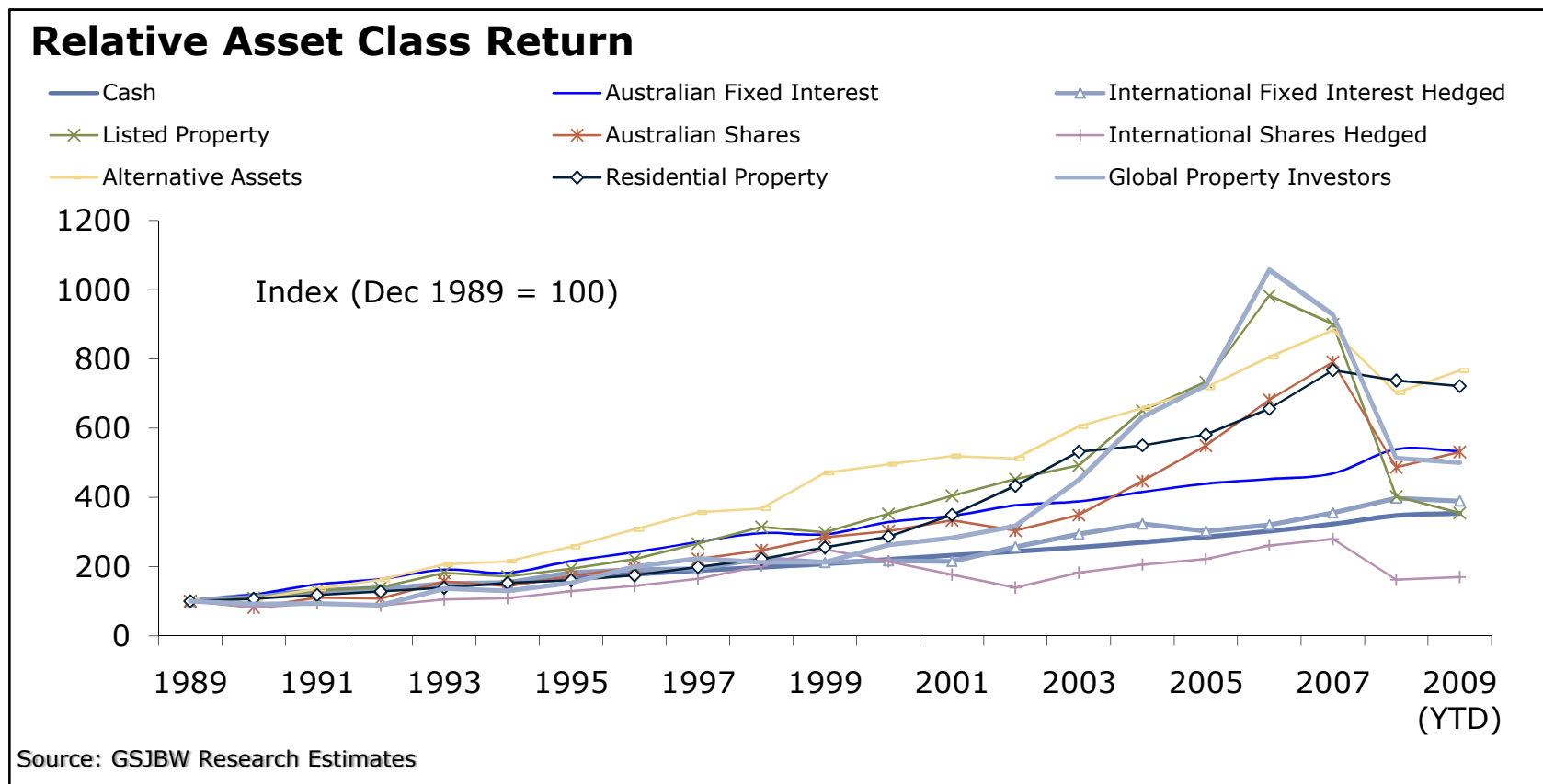
Solution

Delist!

Explaining Volatility – Investor Expectations

- × 2003-07 Unrealistic investor expectations – coming off a high base, too much focus on headline yield

Long term, Investors should expect CPI+400bps through cycle returns

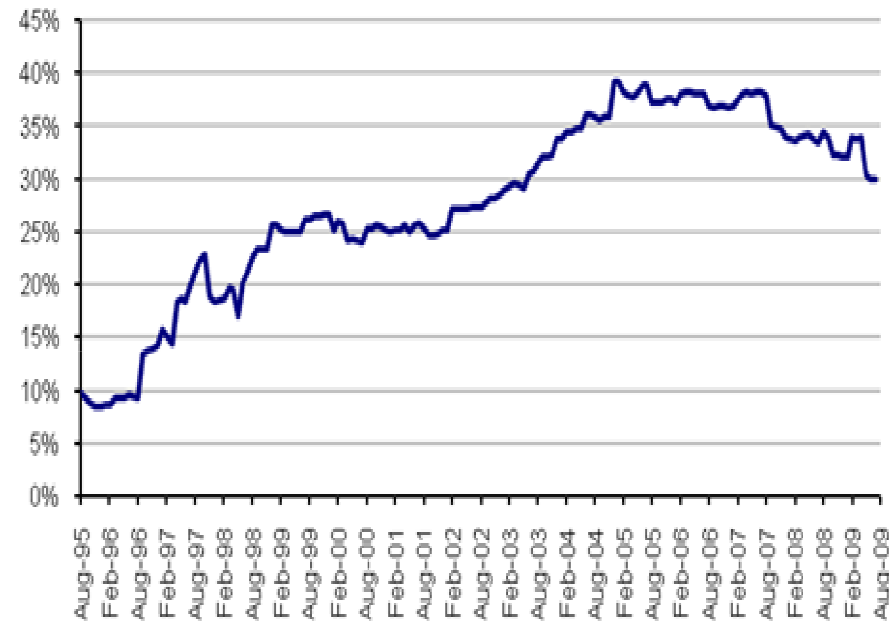


Explaining Volatility – Capital (Mis)Management

× **Capital Management** - high gearing, short maturities, loan covenants, currency hedges, overpriced acquisitions.

- Complacency
- Incompetence
- Excess liquidity (debt/private equity)
- Different agendas of stakeholders
- Appraised based valuations
(risk beyond mgt control)

LPT Sector Gearing



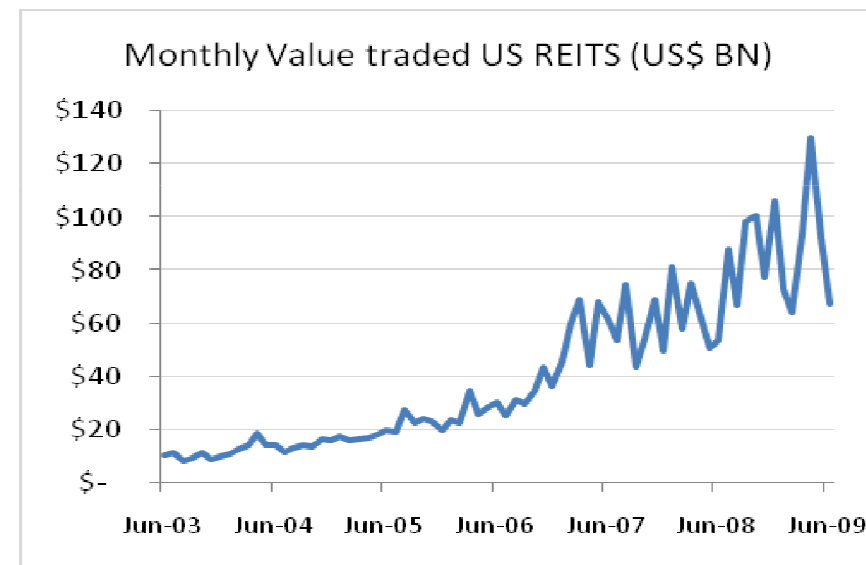
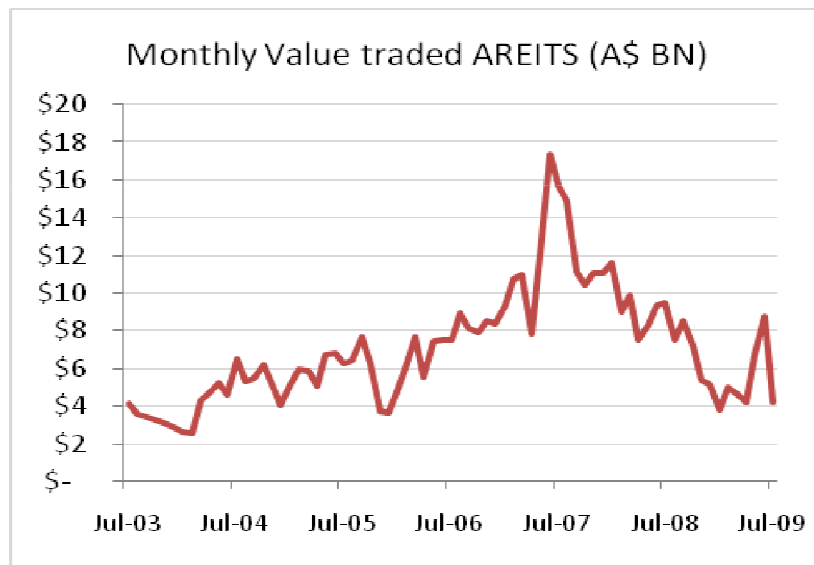
→ Value destruction on a catastrophic scale (e.g. Centro, GPT, MDT, MOF, ING Industrial, Valad, Goodman, General Growth)

→ >\$50bn global REIT equity raisings has largely addressed this issue

Explaining Volatility - LIQUIDITY

Positive Implications

- AREITs have at a minimum, provided \$4bn of liquidity each month
- US REITs have generated trades generally over US\$60bn per month

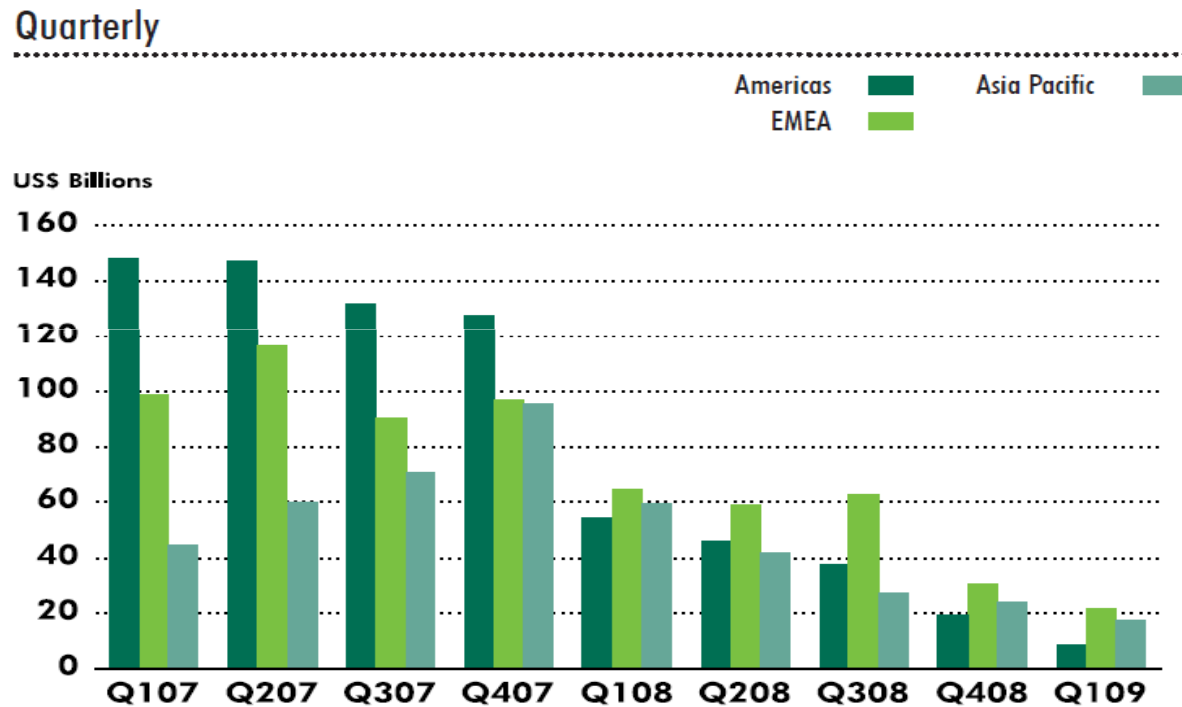


→ Life blood for investors

→ Liquidity has a value

Direct Market

Global Sales Volume by Region



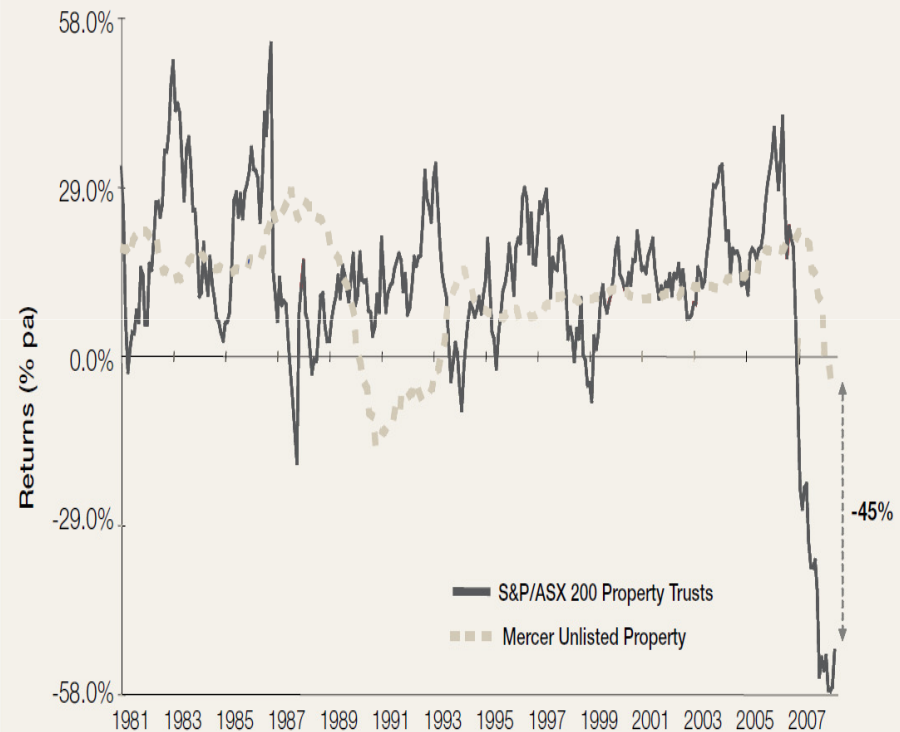
Source: Real Capital Analytics

Unlisted – Fool's Paradise

- Valuations Lags
- Low liquidity
- Discounts
- Refi risk
- External management
- Limited size
- Impact on overall portfolio mgt

Exhibit 1: Australian listed versus unlisted property performance

12 month rolling returns to 31 May 2009



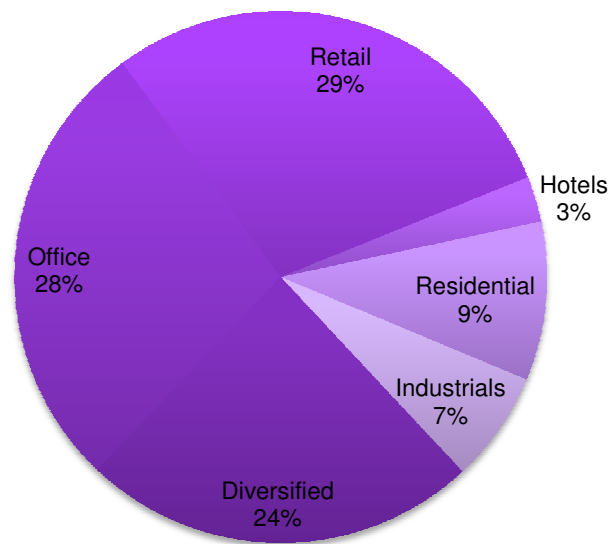
Source: Mercer

Global Real Estate Investment Trusts (REITs)

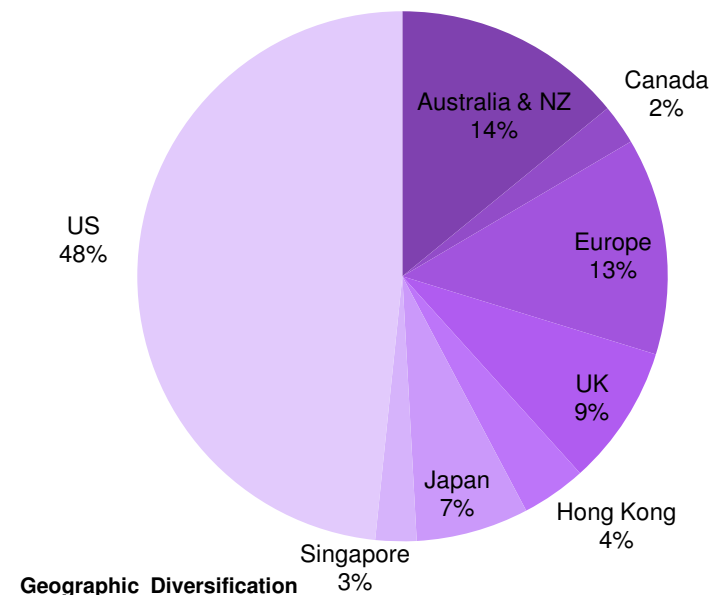
\$500billion Market

> 250 Securities

→ Superior Diversification/Choice/Depth



Sector Diversification



Geographic Diversification

Why (select) REITS

- ✓ Liquid
- ✓ Divisible
- ✓ Cost effective
- ✓ Diverse
- ✓ Quality property
- ✓ Quality management
- ✓ Transparent
- ✓ Legislated high dividend pay-out underpins income yield
- ✓ Long term contracted income

Quality real estate and competent management deliver superior returns

Ideal REIT/Real Estate Characteristics

- High barriers to entry/stable tenant demand
- A clear investment objective with reference to quality income streams with a focus on return on assets
- Management and structure capable of delivering on this objective over the long term
- Liquidity, scale or a sustainable niche
- Low/sustainable leverage
- There are a limited number of these opportunities

Showcasing the World's best

Worst case examples capture headlines and instil fear.

Select Listed REITs/property investment and development companies own and manage the world's best real estate.

The “market” includes quality proven long-term real estate opportunities with responsible management.

Several REITs now in a position to exploit duress – eg asset for equity swaps.

➔ In times of extreme duress, shrewd operators add lasting value.

Unibail-Rodamco (Europe)

- Dominant mall owner in Paris and other major European cities
 - Controls Paris convention centre market
 - Conservative balance sheet (gearing 28% LTV)
 - Significant retail development pipeline and superior asset management track record
 - Proven management team
-
- Interest Cover Ratio (ICR): 3.8x
 - Dividend Yield: 6.8% (90% payout ratio)



Donauzentrum, Vienna, Austria



Lyon-Confluence, France

Hang Lung Properties (HK/China)

- Largest retail landlord in Causeway Bay HK
- Owns successful malls and office in HK and Shanghai
- Developing predominantly retail malls in six major Chinese cities
- No net debt with ability to fund development programme with existing resources
- Astute and disciplined management
- May be the Westfield of China?
- ICR: n/a (no debt)
- Dividend Yield: 2.5%



Grand Gateway, Shanghai

Boston Properties (USA)

- Quality office building portfolio in New York, Boston, Washington DC and San Francisco
- Rental income focus
- Develop to own but has sold mature assets and returned capital via special dividends
- Sold US\$4.3billion worth of assets since 2005 (US\$2billion in early 2007) and began acquiring from distressed vendors in June 2008
- Moderate leverage (6.8x debt/ebitda) and sustainable dividend
- ICR: 2.9x
- Dividend Yield: 3.3% (50% payout ratio)



GM building NYC

Home Properties (USA)

- Owner/Manager of apartment buildings
- Established 1967, listed 1994
- East Coast USA high barrier markets
- 36,000 apartments
- 13 consecutive years of dividend increases
- Equivalent net rental yield >7%
- Ongoing debt/finance provided by Freddie/Fannie
- ICR: 2.2x
- Dividend Yield: 6.8% (payout ratio 85%)



Liberty Commons Apartments, South Portland, ME



The Apartments at Wellington Trace, Frederick, MD

British Land (UK)

- Diversified (office and retail), quality portfolio
- 13 year ave lease expiry
 - <6% of space expires in next 3 years
 - Upward only rents
- 13 year average debt maturity (at 5.3% interest cost)
- 2x interest cover
- Significant undrawn debt facilities
- 5.4% distribution yield (95% pay-out)



Exchange Square, London

Resolution Capital

- Resourced - 12 Member team based in Sydney, Australia
 - Experienced - PMs survived last property crash
 - Specialists - Focused on Global Real Estate Investment Trusts (REITs)
- Proprietary research underpins informed, experienced judgement
 - Stable - PMs/staff own majority of the business
- Multi-PM approach (reduced key man risk)
 - Aligned - Co-investment by PMs in funds
- Performance fees dependent on positive returns
 - Concentrated portfolio – focused on quality and price
- Superior, sustainable long term investment performance

Our Philosophy – Value Investment Driven

- REITs provide the most efficient access to the world's best real estate and real estate management
- The ultimate drivers of real estate securities are the quality and level of sustainable cash earnings generated by the underlying properties
- We focus on evaluating stocks across regions and sectors on a consistent basis
- Our bias is towards:
 - Larger, higher quality property portfolios
 - Property located in markets with strong underlying fundamentals
 - Vehicles with appropriate and sustainable capital structures
 - REITs run by disciplined management teams

Few vehicles meet these criteria

RCL Performance

Resolution Capital performance period to 31 July 2009					
	Qtr	6 Mth	1 Yr	2 Yr	
Core Plus					Since inception Nov-04
Portfolio	12.0	4.7	-32.7	-31.3	-5.7
Benchmark (ASX Benchmark) ^	11.9	-0.2	-37.7	-37.8	-10.2
Alpha	0.1	4.8	4.8	6.5	4.5
Global Real Estate - unhedged					Since inception Dec-06
Portfolio	3.4	2.6	-15.3	-15.3	-15.8
Benchmark (UBS Global Investors Index - unhedged)	3	-5.9	-29.3	-25.8	-25.2
Alpha	0.5	8.5	13.8	10.4	9.4
Global Real Estate - hedged					Since inception Sep-08
Portfolio	12.1	24.9			-20.4
Benchmark (UBS Global Investors Index - hedged to \$A)	12.2	16.1			-37.7
Alpha	-0.1	8.8			17.3

Legend: ^ Blend of ASX Property Trust 200 Accumulation Index and ASX Property Trust 300 Accumulation Index

Note: All above returns are reported before management fees



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Conclusion

- Volatility has not been properly understood
- Debt within REITs must be permanently lower – investor expectations of lower volatility and management limitations
 - ➔ Debt is not a problem for all
- REITs have provided liquidity - liquidity has a value
- >\$50bn of equity underscores benefits of liquidity and quality of underlying portfolios
- REITs remain the primary vehicle to access the highest quality real estate
- AREITs remain important, however more quality opportunities are available by investing Globally

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